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UNCLAS SECTION 01 OF 02 BRASILIA 001839

SIPDIS

SENSITIVE

STATE PLEASE PASS TO USTR
NSC FOR CRONIN, RENIGAR
DEPT OF TREASURY FOR FPARODI
USDOC FOR 3000/JOHN TOCCO
USDOC FOR 3134/USFCS/OIO/WH/EOLSON
USDOC FOR 4332/ITA/MAC/WH/OLAC/MWARD
USDOC FOR 6950/Dean Woddard - Aerospace
DOT FOR SUSAN MCDERMOTT, CAROLYN COLDREN
FAA MIAMI FOR MARK RIOS

E.O. 12958: N/A

TAGS: [FAIR](#) [EINV](#)

SUBJECT: BRAZIL - NEXT STEPS FOR VARIG UNCLEAR

REFS: (A) BRASILIA 1608, (B) BRASILIA 1631, (C) BRASILIA 1566

[1](#)1. (SBU) Summary. Boeing Sales Director for Brazil, Jose Sicilia, told Emboffs that Boeing is still trying to assess what the immediate future holds for Varig after the carrier's recent move to obtain bankruptcy protection. While under Brazilian law the company has until August to file a reorganization plan and is immune until December from creditor suits to repossess assets, Sicilia noted that the U.S. federal district court injunction barring creditors from foreclosing expires on September 12 -- at which point it is unclear what would happen. In the end, if Varig is unable to secure a debt-swap with the GOB (Ref A), then Sicilia thinks it unlikely that the airline will survive. Given the political scandals in which the Lula administration is currently enmeshed (Ref B), to avoid the accumulation of bad news the GOB may try to delay resolution of the Varig crisis until after the next presidential election. End Summary.

[1](#)2. (U) This cable includes business confidential information and should be handled accordingly.

[1](#)3. (SBU) On July 1, Boeing Sales Director for Brazil, Jose Sicilia, met with EconOffs and Foreign Commercial Service staff in Brasilia and had a candid discussion of the Varig crisis. Sicilia, who at times plays the role of the "advocate" for Varig in Boeing, noted that Boeing has had a long history of working with the airline. Although in the past Boeing has forgiven some of Varig's debts (in exchange for an exclusivity contract), Sicilia considered the business relationship with Varig very positive over the years. Indeed, he observed, if Varig puts together a good recovery plan, Boeing will fight for Varig to survive. Nevertheless, Sicilia stated, the company has to consider the interests of its leasing subsidiaries Boeing Capital Corporation (BCC) and Boeing Asset Management (BAM), both of which were more interested in cutting their losses than in looking to future sales. Sicilia informed us that Boeing had been considering pulling its leased planes, but that IFLC had moved first (Ref C). Given the popularity of Varig in Brazil, Boeing didn't want to be the "bad guy" who took Varig down. (According to Sicilia, Varig has 29 different lessors, the biggest of which are Boeing, IFLC, ANCET, GATX, and Bristol.)

[1](#)4. (SBU) A group of high-level Boeing executives, including BCC and BAM, will be meeting with the Varig Board the week of July 4 at Varig President David Zylbersztjan's request. Sicilia predicted that the meeting will be mostly pleasantries, but that if Varig says something "wrong" (such as indicating it won't be able to make current payments), that Boeing may begin its lease termination planning. In the final analysis, Sicilia believes the crux is whether the GOB will allow a debt-swap or not; if not, he said there is little hope that Varig can attract investors or survive. (On July 7, Varig announced that Henrique Nieves had stepped down as president to manage the debt restructuring operations and Omar Carneiro da Cunha, who was the VP, would assume the presidency of the airline.)

[1](#)5. (SBU) If Varig goes belly-up, Sicilia thinks that most of its domestic routes would be filled relatively easily by other Brazilian carriers. Given the greater difficulties in operating overseas and the need to acquire slots at foreign airports, the international routes would be more complicated to fill. Overall, he considered transferring Varig's leased planes and service infrastructure into TAM the best option for filling the service gap quickly. However, since TAM has an Airbus fleet and no support infrastructure for Boeing's planes, Sicilia isn't sure such a transfer would materialize. While cut-rate airline GOL operates Boeing planes, and has more cash available, Sicilia said GOL

doesn't have authorization to fly wide-body planes, and that in general its low-cost carrier model wouldn't work as well on international routes. In addition, GOL has already gone in another direction internationally as it announced this week the signing of an MOU to establish a low-cost carrier in Mexico as well as code sharing plans with Air France and Delta.

16. (SBU) Comment. Varig's bankruptcy filing has bought it some breathing room, but may only postpone the inevitable. Boeing's Sicilia was clearly trying to be upbeat about the future even though he admitted the situation was bleak. We think it highly unlikely that the recovery plan will be sorted out by the September court date. But, given the current political crisis, neither does the Lula administration want the demise of Varig on its hands. We look for the GOB to try to kick the can down the road, which could happen if Brazil's judiciary extended the foreclosure prohibition period for 180 days and U.S. courts followed suit, thus preventing the lessors from seizing their leased aircraft.

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